

Trust Administration System

Department of the Interior

➤ Trust Audit Functions



Grant Thornton

An instinct for growth™

Executive Summary

The objective of Phase 4 of this study is to help DOI understand if the current processes and procedures for the annual financial statement audit of Trust Fund Balances, internal control reviews, and programmatic reviews are adequate and appropriate to assure the Secretary of the Interior that DOI is fulfilling its trust responsibilities to the Indian beneficiaries.

The scope of this study encompasses the fiscal year (FY) 2012 financial statement audit, internal control reviews and program reviews of all TAS operations. For the purposes of this assessment, the term TAS operations incorporate seven services which are performed by six partner bureaus/offices at DOI. The seven services are accounting and accounts management, land ownership, real estate management, Indian land consolidation, forestry, natural resources, and minerals. The six partner bureaus/ offices are Bureau of Indian Affairs (BIA), Office of the Special Trustee (OST), Bureau of Land Management (BLM), Office of Natural Revenue Resources (ONRR), Office of Hearings and Appeals (OHA), and Assistant Secretary – Indian Affairs (AS-IA).

To perform this assessment, Grant Thornton interviewed DOI management officials and DOI officials responsible for performing internal control and programmatic reviews at each DOI partner bureau/office with trust responsibilities, and reviewed various documents in order to gain an understanding of the each component of the audit function.

The following provides a summary of key observations.

➤ Audit Component

The Reform Act requires an annual audit of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian. The annual financial statement audit of the trust funds is performed by an independent public accounting firm with oversight provided by the OIG. This audit does not encompass all trust assets and is limited in scope to trust funds managed and held by OST in its seven Treasury accounts. During our review, we noted that the financial statements were compiled using a cash or modified cash basis of accounting, not an accrual basis, as required by SFFAS No. 31. In addition, we noted that the independent accounting firm was unable to opine on the fairness of trust fund balances due to a scope limitation.

➤ Internal Control Component

DOI has an established ICP designed in accordance with the goals, objectives and requirements of OMB Circular A-123 that is used by DOI bureaus/offices to perform ICRs. However, the execution of the ICP for TAS by organization creates a "silo" effect that impacts the coordination among bureaus/offices for the delivery of TAS services. Each bureau /office follows the DOI ICP to perform its internal control testing and those results are reported to DOI; however, there exists no direct oversight for internal control reviews over TAS services. Because of this, management

may not have an accurate or complete assessment of internal controls that ensure trust assets are appropriately managed.

➤ Programmatic Review Component

The execution of programmatic reviews is important for ensuring that the TAS program is administered effectively, efficiently and in accordance with applicable laws and regulations. Each bureau/office within DOI is responsible for performing programmatic reviews over its trust responsibilities. However, DOI lacks formally documented processes and criteria for performing programmatic reviews for TAS as a whole, and thus these reviews are not consistently performed for all portions of the TAS program. Because of this, management may lack an accurate account of the program execution.

Grant Thornton has provided recommended options for improving DOI's Trust Administration System audit functions.

Table of Contents

| | |
|--------------------------------------|----|
| Executive Summary | 2 |
| Background | 5 |
| Objective, Scope, Methodology | 7 |
| Status Review – Audit Functions | 13 |
| Status Review – Internal Controls | 18 |
| Status Review – Programmatic Reviews | 21 |
| Overall Assessment | 25 |
| Recommendations | 27 |

Background

The American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) (the Reform Act) authorized the establishment of the Office of the Special Trustee for American Indians (OST)¹. Under this legislation OST is responsible for oversight, reform, and coordination of the policies, procedures, systems, and practices used by various bureaus and offices within DOI. The Reform Act also detailed specific improvements to trust fund administration including the appointment of a Special Trustee to oversee comprehensive reform of Indian trust fund management and accounting. This legislation represented the first significant reform effort by Congress to address the federal government and DOI's management of Indian trust funds.

Since the Reform Act, DOI has undertaken continuous improvements to achieve greater trust administration efficiency and effectiveness. Following an extensive review of the existing TAS business environment in 2002, DOI created a Comprehensive Trust Management Plan (CTMP) in 2003 that laid out an enterprise strategic direction, business model, organizational structure, and transformation initiatives that would achieve desired reforms. Various external reviews and DOI-led studies have been conducted since the creation of the CTMP to monitor and assess progress toward stated outcomes and to identify further opportunities for improvement. Most recently in 2012, OST operations were assessed and options were identified to improve internal coordination and service delivery to beneficiaries.

However, as noted in the *Cobell* litigation, there is a continued need for substantial improvement of TAS operations. In response to *Cobell*, DOI established the Secretarial Commission on Indian Trust Administration and Reform (Commission) to conduct a comprehensive review of the DOI's management of TAS and to determine recommendations for future improvement. To assist the Commission in reviewing TAS operations and management, the Grant Thornton team, consisting of Grant Thornton LLP, Cherokee Services Group, and Moss Adams, was hired as independent management consultants to:

- Understand and assess current TAS operations.
- Identify additional opportunities to improve TAS that integrate external (individual beneficiaries and tribes) and internal (DOI and other federal government institutions) perspectives.

This report represents Grant Thornton's results of its assessment of the effectiveness of the TAS audit functions. This report in conjunction with the report deliverables for Tasks 1, 2, and 4 will provide a Comprehensive Assessment of the Trust Administration System (TAS). Below are the objectives of Tasks 1, 2, 3, and 4.

- Task 1 (Phase 1): Develop a baseline of DOI's current policies, processes, and procedures for fulfilling both its monetary and nonmonetary trust obligations to American Indians and Alaska Natives. This includes the operations of the bureaus/offices responsible for delivering trust services.

¹ American Indian Trust Fund Management Reform Act of 1994, Section 4042(a)

- Task 2 (Phase 2 and 3): Assess both the monetary and non-monetary trust asset management activities identified in the Baseline and evaluate the implementation of DOI's prior reform efforts, recommending any additional reforms that will improve trust administration. Identify options for transferring, consolidating, or otherwise managing the trust funds and assets in an optimal manner to enhance accountability, responsiveness, efficiency, and customer service.
- Task 3 (Phase 4): Determine the adequacy of DOI's current TAS audit functions (i.e., Annual Audit, Internal Controls, and Programmatic Reviews) and recommend options for improvement and possible expansion of such audits.
- Task 4 (Phase 5): Develop a set of recommendation options to improve DOI's management and administration of TAS.

Objective, Scope, Methodology

➤ Objective

Grant Thornton was engaged by DOI Secretarial Commission on Indian Trust Administration and Reform (Commission) to perform a comprehensive assessment of the Trust Administration System (TAS). The purpose of the assessment is to:

- Provide a current depiction of TAS across stakeholders (e.g., DOI bureaus/offices and beneficiaries).
- Assess the maturity level of TAS operations.
- Identify opportunities for improvement that will guide the future state analysis and resulting recommendations.
- Evaluate alternative governance structures; identify additional necessary reforms, and present recommendations to enhance the management of TAS.

The objective of Phase 4 is to help DOI understand if the current processes and procedures for the annual financial statement audit of trust fund balances, internal control reviews and programmatic reviews are adequate and appropriate to assure the Secretary of the Interior that DOI is fulfilling its trust responsibilities to the Indian beneficiaries. The specific objectives for each component of the audit functions are:

- Annual Audit of Trust Funds: Review the process and procedures of the annual external audit of trust funds to determine if compliance with Government Auditing Standards is sufficient to ensure the integrity of the Interior's accounting of the trust funds in its annual financial statements and provides Indian trust beneficiaries adequate assurance that funds held in trust are properly accounted for, are being stated properly and that financial statements are free of material misstatement. The objective of this component of the phase does not include performing a peer review of the external audit. As such, no such review was performed.
- Internal Controls: Review DOI internal controls based on DOI's risk-based, integrated Internal Control Program (ICP), which is based on OMB Circular A-123, *Management's Responsibility for Internal Controls*, to determine the sufficiency at which the Program assures the integrity of systems and processes across all bureau and offices within DOI relative to the trust management system. In addition, provide DOI with information regarding the processes for documenting and tracking deficiencies along with the development, implementation and tracking of associated corrective action plans.
- Programmatic Reviews: Review the processes and procedures under which DOI conducts programmatic reviews of the administration of the trust management system to determine sufficiency and make recommendations for improvements.

➤ Scope

The scope of this assessment encompasses the fiscal year (FY) 2012 financial statement audit of trust fund balances, internal control reviews and program reviews of all TAS operations, a term which refers to the collective set of services provided by DOI bureaus and offices to manage beneficiary monetary (e.g., IIM accounts, tribal accounts) and non-monetary accounts (e.g., land surface and sub-surface resources). The non-audit and non-oversight functions of TAS operations associated with the Reform Act of 1994 and the *Cobell* litigation are in the accompanying Phase 5 comprehensive list of trust improvement recommendations. For the purposes of this assessment, TAS operations include seven services performed by six partner bureaus/offices at DOI:

- **Accounting and Accounts Management.** The processes and controls that collect, invest, safeguard, account for, and distribute proceeds to beneficiaries resulting from both monetary and non-monetary resources. This includes any historical accounting and associated litigation support.
- **Land Ownership (Probate and Ownership Maintenance).** The processes that determine the appropriate distribution of a decedent's estate (e.g., trust cash assets and/or trust or restricted land) in the absence of a legally binding will. This includes determination of heirs, approval of wills, and beneficiaries, and transfers of any funds held in trust by the Secretary for a decedent to the heirs, beneficiaries, or other persons or entities entitled by law.
- **Real Estate Management.** The processes that protect, manage, and develop trust land assets (non-mineral) including 1) surveys; 2) mortgages; 3) rights of way; 4) land titles and records; 5) conveyances; leasing and permitting; 6) lease compliance; 7) appraisals; 8) land acquisition and disposal; and 9) developing and maintaining land records
- **Indian Land Consolidation.** The initiatives designed to consolidate trust land assets including the resolution of tract ownership interests.
- **Land Management and Preservation – Forestry.** The processes that manage, develop, enhance, regulate, and protect American Indian forestlands. This includes wild land fire management.
- **Land Management and Preservation – Natural Resources.** The processes that manage, develop, and protect natural resource assets (i.e., parks, wildlife, and fisheries, agriculture, and range), and water resource management capabilities (i.e., irrigation, power, and dam safety).
- **Land Management and Preservation – Minerals.** The processes that manage, develop, enhance, regulate, and protect Indian surface and sub-surface mineral assets (e.g., oil, gas, coal).

The six partner bureaus/offices that perform TAS operations are described below. For a more thorough analysis of which functions each partner performs refer to the Comprehensive Assessment of the Trust Administration System issued in July 2013 prepared by Grant Thornton.

- **Bureau of Indian Affairs (BIA)** was established in 1824 to enhance the quality of Indian life, promote economic opportunity, and to carry out the responsibility to protect and improve the

trust assets of Indians, Indian tribes and Alaska Natives. Within BIA, the Office of Trust Services (OST) and the Office of Indian Services are primarily responsible for trust-related services.

- OST was established by the Reform Act for the purpose of improving trust fund management and accountability.
- Bureau of Land Management (BLM) was established in 1946 through a merger of the General Land Office and the U.S. Grazing Office to sustain the health, diversity, and productivity of America's public lands for the use and enjoyment of present and future generations. BLM's involvement in Indian trust assets is most often in the form of sustainability planning and compliance.
- Office of Natural Revenue Resources (ONRR) was established in 2010 from the former Minerals Management Services (MMS). ONRR is tasked with the management of revenues associated with federal offshore and federal/Indian onshore mineral leases, as well as revenues received as a result of onshore and offshore renewable energy efforts.
- Office of Hearings and Appeals (OHA) exercises the delegated authority of the Secretary of the Interior to conduct hearings and decide appeals from decisions of DOI bureaus/offices. This includes probate of Indian trust estates, as well as resolution of appeals regarding management of Indian trust assets (surface/subsurface).
- Assistant Secretary – Indian Affairs (AS-IA) assists and supports the Secretary of the Interior in fulfilling the United States' trust responsibility to federally recognized Indian and Alaska Natives/individual beneficiaries. AS-IA is specifically tasked with maintaining the federal-tribal government-to-government relationship.

This assessment does not include non-trust and/or non-Cobell related trust services (e.g., Bureau of Indian Education (BIE), Law Enforcement, and Indian Social Services). The Office of Surface Mining, Office of Minerals Evaluation Services (OME) and the Bureau of Reclamation were also excluded from the scope of the assessment.

➤ Methodology

To establish a comprehensive understanding DOI's audit functions, Grant Thornton established a baseline for the FY2012 financial statement audit, internal control reviews, and programmatic reviews (oversight functions) by comparing the current policies, procedures, and operations to the requirements established by laws, regulations, and DOI. We then assessed the implementation of each oversight function across DOI to assess if they were implemented as intended. Finally, we holistically assessed all the oversight functions to provide information to DOI regarding the fulfillment of its trust responsibilities to the Indian beneficiaries.

Grant Thornton conducted this assessment in five phases: 1) Baseline; 2) Assessment; 3) Future State; 4) Audit Process; and 5) Final Recommendations. To determine the adequacy of DOI's audit functions Grant Thornton separately assessed each audit component. In addition, Grant Thornton took a holistic approach and looked across all components to see if TAS operations were covered through any review and then assessed the adequacy of the review.

➤ Methodology for the Assessment of the Annual Audit of Trust Funds

As part of executing the Department's fiduciary responsibilities of ensuring that Indian trust assets are properly managed and trust monies received from Indian trust lands, natural resources and other resources are presented in financial statements that are fairly presented, DOI contracts with an independent accounting firm to conduct an annual audit of the Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds. This audit is performed in addition to the annual audit of the DOI financial statements, as required by the Chief Financial Officer's Act. .

As part of conducting our assessment, Grant Thornton reviewed the audit opinion of the FY 2012 Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds², the DOI Agency Financial Report³, as well as laws and regulations applicable to these two audits. We also reviewed the endorsement letters and procurement documents issued by the DOI Office of Inspector General (OIG) for both of these audits. These reviews were conducted to determine the statutory, regulatory and contractual requirements for the financial statement audits. As part of our review we focused on the scope of the audits, the DOI offices involved in the audit and the level of control reliance, to include information technology controls.

The audit is required to be performed in accordance with generally accepted government auditing standards (GAGAS). In addition, the annual audit is required to be conducted to meet the requirements for audit coverage required by the Chief Financial Officer's (CFO) Act, Office of Management and Budget (OMB) Bulletin No. 07-04 (and subsequent issuances) and the Federal Accounting Standards Advisory Board (FASAB) requirements.

➤ Methodology for the Assessment of DOI TAS Internal Controls

DOI's Internal Control Program (ICP) comprises the plans, methods, and procedures used to support meeting DOI's missions, goals, and objectives. The overall objectives for the ICP are (a) to ensure that a sound system of internal controls exists in all programs, operations, organizations, and functions that meet the objectives and requirements of the Federal Managers Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, *Management's Responsibility for Internal Controls*; and (b) to implement an effective, efficient and systematic approach to assessing internal controls that integrates with other management improvement initiatives within Interior.

To determine the sufficiency at which DOI implements its OMB Circular A-123 risk-based ICP relative to the trust management system, Grant Thornton interviewed appropriate DOI personnel in numerous offices responsible for internal controls at each DOI organization with trust responsibilities to gain an understanding of the internal control process at each organization.

In addition, Grant Thornton obtained and reviewed documentation associated with DOI's ICP. We reviewed handbooks, guides, manuals, training material and policy and procedure

² The Tribal and Other Trust Funds and Individual Indian Monies Trust Funds managed by U.S. Department of the Interior Office of the Special Trustee for American Indians audit report is available at http://www.doi.gov/ost/trust_documents/Annual-Audits.cfm

³ The United States Department of the Interior Agency Financial Report for FY2012 is available at <http://www.doi.gov/pfm/afr/index.cfm>

documents regarding the implementation and performance of the DOI ICP. In addition, Grant Thornton obtained a listing of all processes reviewed during FY2012, selected processes to assess, and obtained the corresponding process narrative, flow chart, control matrix, test results, findings, and corrective action plans. Grant Thornton reviewed these documents to ensure bureaus/ offices are compliant with the ICP. Specific documents reviewed included:

- Component Inventory
- Risk Assessment
- Control Matrixes
- Process Narratives
- Flowcharts
- Test Plans
- Corrective Action Plans
- Annual Statement of Assurance

Documentation obtained was analyzed to determine if the design of the ICP program, its execution, and reporting processes provided DOI with information necessary to fulfill its trust responsibilities to Indian beneficiaries.

➤ Methodology for the Assessment of Programmatic Reviews

DOI organizations perform programmatic reviews to ensure TAS services achieve their intended results and are in compliance with laws, regulations, policies, and procedures. Programmatic reviews assess the efficiency and effectiveness of TAS operations and programs. BLM and ONRR perform programmatic reviews over their TAS services. OST performs programmatic reviews at BIA Regional offices and Agencies. Within BIA, the Indian Land Consolidation Program office, the Office of Trust Services, and some BIA Regional offices perform programmatic reviews over their TAS services.

To assess DOI's programmatic reviews, Grant Thornton interviewed DOI personnel responsible for programmatic reviews at each DOI partner bureau/office with trust responsibilities to gain an understanding of the program review process at each DOI bureau / office.

In addition, Grant Thornton reviewed documentation associated with the programmatic reviews. Specifically, we obtained and reviewed handbooks, policies, laws, regulation, and procedures used by each DOI partner bureau/office to perform these reviews. Furthermore, we obtained and reviewed workpapers, results, and final reports. In addition, we obtained a listing of reviews performed in FY 2012 from each partner bureau/office. We then haphazardly⁴ selected six reviews performed by various bureaus/ offices. The team then requested and obtained programmatic review documentation from the respective DOI partner bureau/ office. Grant Thornton compared the steps performed during the reviews to the applicable law,

⁴ Haphazard sampling is a non-probability sampling method that does not follow any systematic way of selecting samples.

regulation, handbook, policies and procedures to ensure the review standards complied with applicable laws, regulation, policies, and procedures. Lastly, Grant Thornton compared GAGAS requirements for performance audits to the bureau/office SOPs.

Status Review – Audit Functions

Each year the DOI OIG issues a contract to an independent public accounting firm to conduct an audit of the Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds that are managed by OST, and the related Statement of Changes in Trust Fund Balances as well as the Statement of Assets and Trust Fund Balances for Individual Indian Monies (IIM) and the related Statement of Changes in Trust Fund Balances (Trust Fund Statements). The purpose of this audit is to express an opinion on whether the financial statements are presented fairly, in all material respects, on a comprehensive basis of accounting other than generally accepted accounting principles.

➤ Audit of Trust Fund Financial Statement Performed in Accordance with Standards

Audits performed under GAGAS are used by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits. Audits performed in accordance with GAGAS provide information used for oversight, accountability, transparency, and improvements of government programs and operations. Financial statement audits performed in compliance with GAGAS are intended provide reasonable assurance that the financial statements, taken as a whole, are fairly presented, in all material respects.

A qualified opinion is expressed when an auditor, having obtained sufficient appropriate evidence, concludes that misstatements are material, but not pervasive, or when an auditor is unable to obtain sufficient appropriate evidence on which to base an opinion and believe that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.⁵

As with any Federal Financial Statement Audit, the FY12 audit of the Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds and the related Statement of Changes in Trust Fund Balances as well as the Statement of Assets and Trust Fund Balances for Individual Indian Monies (IIM) and the related Statement of Changes in Trust Fund Balances are required to conform to Generally Accepted Government Auditing Standards (GAGAS). During our review of the statement of work associated with the audit as well as the resulting opinion, we noted this as a requirement, and that the independent auditors completed the audit in accordance with GAGAS, as stated in the Opinion. We did not obtain or review workpapers associated with the external audit nor did we interview the independent auditors to confirm this information. We also did not access the workpapers prepared as part of the audit in order to confirm the work was conducted in accordance with the stated standards; such an assessment would be a peer review, and, as such, this report is not, nor designed to be, a peer review.

⁵ Government Auditing Standards, issued by the Government Accountability Office
<http://www.gao.gov/products/GAO-12-331G>

As indicated in the audit report accompanying the FY 2012 trust fund statements, both the Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds and the related Statement of Changes in Trust Fund Balances as well as the Statement of Assets and Trust Fund Balances for Individual Indian Monies (IIM) and the related Statement of Changes in Trust Fund Balances received a qualified opinion. Specifically, the report stated that the independent auditor was unable to extend audit procedures sufficiently to determine whether or not the trust fund balances were fairly stated. The qualification on the statements resulted from the effects of certain parties to whom OST holds assets in trust disagreeing with balances reported by OST and/or having requested an accounting of their trust funds, and of which certain of these parties have filed claims against the United States Government.⁶ The audit does not express an opinion on internal control of financial reporting or on compliance with laws and regulations. The opinion on internal control of financial reporting and compliance with laws and regulations are expressed in separate opinions.

➤ Scope of Trust Fund Audit Does Not Encompass all Trust Assets

The Reform Act established the Secretary's responsibility for managing and overseeing trust assets and ensuring accurate and complete account statements are provided to trust beneficiaries. In addition, the Reform Act requires all funds held in trust by the United States for the benefit of an Indian tribe or individual Indian be audited annually. The Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds and Individual Indian Monies are the financial statements audited by the independent accounting firm. The balances in these accounts generally result from royalties of natural resources such as timber, oil & gas, and coal, from judgments, settlement of claims, leases, investment income, and other proceeds. As stated in the statement of work for the external audit of the trust fund statements and in the report issued by the external auditor, the audited trust financial statements only include financial assets managed by OST. The audit encompasses all Indian trust funds managed by OST inclusive of all funds in the following seven Treasury account symbols:

- 14X6039 Individual Indian Monies
- 14X5265 Tribal Special Funds
- 14X6140 Deposits for Proceeds of Land Withdrawn for Native Selection
- 14X6803 Tribal Deposit Fund
- 14X8030 Tribal Trust Fund
- 14F3880.21 Treasury Budget Clearing Account – Unavailable Check Cancellation and Over Payment
- 143320 Misc Treasury Receipts

⁶ The qualified opinion on the FY 2012 financial statements has been a repeated issue since 1996 and refers to disagreements on trust balances arising during the period in time prior to passage of the Trust Reform Act. OST has since cleared all other audit exceptions and is working with the Solicitor and Department of Justice to settle tribal litigation over this remaining matter.

These funds accounted for in the Treasury account symbols noted above are recorded in the Trust Fund Accounting System (TFAS). This system provides the services necessary for OST to carry out its mission of ensuring the collection, investment, and disbursement of all judgment awards, special acts, and income from trust resources belonging to Indians from whom DOI hold funds in trust.

The trust financial statements do not include the funds from OST's administrative program operating appropriation account and the program operating accounts of other bureaus and agencies, which are not trust assets but are appropriated funds provided for the administration of the trust. These funds are included in the DOI financial statement audit. Other organizations within DOI process trust-related transactions in other DOI information systems that are not in scope for the trust fund audit. For example, BIA is responsible for the collection of certain monies resulting from the management and use of Indian trust lands and other trust resources. Upon receipt, OST records the deposit of trust funds to trust accounts based on the information received from BIA. As another example, ONRR is responsible for the collection of royalty payments on behalf of Indian tribes and individual Indians holding mineral rights. These proceeds are initially recorded in the ONRR People Soft ATS system with subsequent recording into TFAS. ONRR deposits royalties into its Treasury accounts then later transfers the royalty funds into OST Treasury accounts. ONRR is also responsible for overseeing funds that are deposited into its suspense account. All funds ONRR receives are deposited to Treasury Account 14F3875 (Budget Clearing Account (Suspense)). At the end of each month, the funds that are identified as trust are transferred to OST Treasury accounts. The money received by BIA and ONRR are not included in the scope of the trust fund audit until the money is transferred to OST. In addition, there are funds that are derived under the authorization of the government (e.g., leasing, rights of way, and permits) that may flow directly to tribal beneficiaries or allottees, or may be held by other agencies until transferred to OST. These funds are not included in the scope of the trust fund audit.

As a result, DOI does not have visibility into an uncertain amount of revenue/ funding paid directly to beneficiaries and not processed through DOI and the lockbox process. For example, seven of the largest oil and gas tribes rely on BIA, BLM, and ONRR to lease, bill and ensure compliance for their oil and gas revenues, but those funds are deposited directly into each tribe's bank account. While legal (and permissible), these funds are not processed or accounted for in trust funds held by OST. This creates a situation where DOI may not have complete visibility or knowledge of the total liability facing DOI in regards to Indian trust assets. This makes it difficult for DOI to provide beneficiaries information on the proper management and accounting of trust fund assets.

In addition, the trust financial statements do not present other Indian trust assets, including but not limited to Indian lands, buildings, or other non-monetary assets managed by various DOI bureaus/ offices. For example, BIA is responsible for optimizing and sustaining trust land assets totaling almost 55 million surface acres and 57 million sub-surface acres (mineral estates) and for maintaining a system of beneficial ownership interest relative to those lands for Individual Indian and Tribal beneficiaries; however this information is not included in the trust financial statements. Land held in trust is presented in the financial statements of the DOI.

➤ Trust Fund Financial Statements Depart from Accounting Standards

OST was created to improve the accountability and management of Indian funds held in trust by the federal government. As trustee, DOI has the primary fiduciary responsibility to manage both tribal trust funds and Individual Indian Money (IIM) accounts. Statement of Federal Financial Accounting Standard (SFFAS) No. 317, Accounting for Fiduciary Activities defines fiduciary activity and provides accounting and reporting guidance for fiduciary activities for federal financial statements. The standard defines fiduciary activities as *“those Federal Government activities that relate to the collection or receipt, and the subsequent management protection, accounting, investment and dispositions of cash or other assets in which non-Federal individuals or entities (“non-Federal parties”) have an ownership interest that the Federal Government must uphold.”* The SFFAS No. 31 notes the Federal employee's Thrift Savings Fund and the Indian tribal and individual Indian trust funds as examples of fiduciary activities. Given that DOI has a fiduciary responsibility to manage and account trust assets this standards applies. This standard requires accrual accounting for fiduciary activities. In reviewing the auditor's report for both the Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds and the related Statement of Changes in Trust Fund Balances as well as the Statement of Assets and Trust Fund Balances for Individual Indian Monies (IIM) and the related Statement of Changes in Trust Fund Balances Grant Thornton determined that OST uses the cash basis of accounting for the Tribal and Other Trust Funds and the cash basis of accounting with certain modifications for the IIM Trust Funds, which are both a comprehensive basis of accounting other than generally accepted accounting principles.

In addition to the disclosures in the audited financial statement, Grant Thornton compared the DOI Trust Fund Statements to the financial statements of the Federal employee's Thrift Savings Fund (TSP)—another federal government entity with fiduciary responsibility⁸. The TSP statements are prepared in accordance with accounting principles generally accepted in the United States as revenue being recognized when earned and expenses being recognized when incurred. The TSP financial statements present receivable balances for items such as participant and employer contributions and accrued interest and liability balances such as accounts payable on the Statement of Net Assets. The Trust Fund Statements only present accrued interest receivable balances on the Statement of Trust Fund Balances for IIM. The trust financial statements contain the note disclosures highlighted in SFFAS No. 31. However, information about the non-valued fiduciary assets such as Indian land managed by BIA is included in Note 9 in the DOI financial statements.

➤ Assessment of DOI Independent Audit

The audit of the FY 2012 trust fund statements of both the Statement of Assets and Trust Fund Balances for Tribal and Other Trust Funds and the related Statement of Changes in Trust Fund Balances as well as the Statement of Assets and Trust Fund Balances for IIM and the related Statement of Changes in Trust Fund Balances was performed in accordance with GAGAS per

⁷ SFFAS No. 31 is located at http://www.fasab.gov/pdffiles/sffas_31.pdf

⁸ TSP Audit Report is located at <https://www.tsp.gov/PDF/formspubs/financial-stmt.pdf>

the audit report prepared by the external auditor. The OIG exercised technical oversight of the audit and agreed with the audit report as noted in the OIG endorsement letter. However, based on the scope limitation, auditors were unable to obtain sufficient information to assure the Indian Trust beneficiaries that funds reported in the Statements are properly accounted for or that the financial statements are free of material misstatement.

All trust assets are not included in scope of the trust fund financials statement audit. The trust audit only includes trust funds managed by OST in its seven Treasury accounts. The trust audit does not include trust funds collected by other DOI bureaus/ offices. In addition, the trust fund financial statements do not present other Indian trust assets, including but not limited to Indian lands, buildings, or other non-monetary assets managed by various DOI bureaus/ offices.

SFFAS No. 31 defines fiduciary activity and provides accounting and reporting guidance for fiduciary activities. This standard requires accrual accounting for fiduciary activities. However, the Tribal and Other Trust Funds are reported on a cash basis of accounting and the IIM Trust Funds are reported on a cash basis of accounting with certain modifications, which are both a comprehensive basis of accounting other than generally accepted accounting principles. DOI should pause to consider the possibility of changing the presentation of the financial statements to comply with SFFAS No. 31.

Status Review – Internal Controls

The authority for establishing and maintaining agency controls is established in the Federal Managers Financial Integrity Act of 1982 (FMFIA),⁹ which is implemented by OMB Circular A-123. In order to meet these reporting requirements, OMB Circular A-123 requires agencies and individual federal managers to: (a.) develop and implement appropriate, cost-effective internal control for results-oriented management; (b.) assess the adequacy of internal control in Federal programs and operations; (c.) separately assess and document internal control over financial reporting consistent with the process defined in Appendix A (d.) identify needed improvements; (e.) take corresponding corrective action; and (f.) report annually on internal control through management assurance statements.¹⁰ DOI has established an Internal Control Program to implement the requirements of OMB Circular A-123.

The DOI Internal Control Program (ICP) comprises the plans, methods and procedures that support DOI in meeting its missions, goals, and objectives as well as supporting performance-based management. DOI has an established governance structure for oversight of its ICP as outlined in the DOI Internal Control and Audit Follow-up Handbook (ICAF). The Handbook also outlines the roles and responsibilities of key personnel responsible for the execution of the ICP. Per the Handbook, the Office of Financial Management within the Office of Policy, Management, and Budget establishes the policies and provide guidance to all DOI organizations regarding the ICP. The DOI Senior Management Council assesses and monitors deficiencies in internal control and provides oversight of the ICP. The DOI Senior Assessment Team ensures that the ICP fully implements the requirements of OMB Circular A-123 and clearly communicates the ICP objectives throughout DOI.

The Handbook consists of two sections and attachments. Section 1 provides instructions and directions to facilitate compliance with the FMFIA and OMB Circular A-123 while Section 2 provides guidelines to evaluate internal controls over financial reporting, which is required as part of the implementation of Appendix A of OMB Circular A-123. The attachments to the Handbook include templates for various documents required to perform the internal control reviews (ICR) required by the ICP. An ICR is a control review performed by DOI personnel that follows the steps and process of the internal control cycle as outlined in the ICAF. The Audit Follow Up section of the Handbook describes DOI's Audit Follow-up Program and it is compliant with OMB Circular A-50, Audit Follow-up. Each organization within DOI uses the ICAF to perform internal control reviews. Currently, there is no separately documented ICP for DOI bureaus/offices with trust responsibilities to assess internal controls within TAS services.

⁹ The Federal Managers Financial Integrity Act of 1982 is located at http://www.whitehouse.gov/omb/financial_fmfi1982

¹⁰ OMB Circular A-123 *Management's Responsibility for Internal Control* is located at http://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a123/a123_rev.pdf

➤ DOI ICP Adheres to OMB Requirements

Grant Thornton reviewed the procedures outlined in the DOI ICP and compared them to requirements set forth in OMB Circular A-123. DOI's ICP and guidance aligns with OMB Circular A-123 requirements since the DOI ICP provides for the establishment, assessment, correction and reporting of internal controls. As prescribed in both A-123 and the DOI ICP, the ICP is risk based, meaning the focus on the ICR is on those functions, programs, etc. that are subject to risk. Risk is a subjective term and can be based on portions of programs/functions that are more subject to risk due to the nature of the program or weak controls or risk can be based on materiality—either qualitatively or quantitatively.

Because many DOI programs and functions (mission areas) have both a federal government component and trust component, it is relatively likely that under the DOI ICP the trust portion of the program could be considered low risk to a bureau/office and therefore deemed out of scope for the ICR. It is also possible that when the trust portion is within scope, it may not be segregated from the Federal populations during sampling and testing. In this scenario, it is likely that insufficient samples related to trust would be selected for testing. As a result the test would be an adequate test for the control in general, but not sufficient to conclude on controls directly related to trust portions.

➤ ICP is not Fully Executed Across all BIA Regional Offices

All DOI bureaus/offices are required to execute the ICP in accordance with the guidance provided in the Handbook. Through interviews and reviewing component¹¹ inventories provided by bureaus/offices, Grant Thornton confirmed that OST, ONRR, BIA's Office of Trust Services and BIA's Indian Land Consolidation Program performed ICRs. In addition, through interviews and review of documentation, Grant Thornton found that the ICP was not implemented at all of the BIA Regional Offices. In fact, some Regional Offices had not performed an ICR in several years and some were not even aware that the ICP existed. According to officials from the BIA Office of Internal Evaluation and Assessment (IEA), the office responsible for assisting and ensuring that Indian Affairs organizations implement and comply with established internal control guidelines, this inconsistent and/or nonexistent participation in the ICP had been previously identified by IEA during their independent reviews of ICRs performed at the Regions

➤ The ICP is Implemented in a "Silo" Manner

Trust Fund related resources and functions are performed across different partner bureaus/offices. In fact, many Trust functions involve several different bureaus and offices. For example, delivery of minerals services involves OST, BIA, BLM and ONR. Specifically, BIA advertises and handles lease sales. Once the lease or contract reaches production status authorized by BLM, BIA monitors operations to ensure compliance with the terms and conditions

¹¹ As defined in the Handbook, components are the major programs, administrative activities, organizations, or functional subdivisions, within the bureau/offices, that require one or more separate systems of internal control. Components should be aligned with the bureau/office organizational structure, constitute a significant portion of their administrative activities or budget, and should perform a unique function or functions to achieve a specific set of objectives

of the lease. BLM is responsible for evaluating the lease derived from direct negotiations and issuing drilling permits. ONRR is responsible for royalty compliance monitoring, billing, and collecting funds, providing distribution data to BIA, and transferring collections to OST. Lastly, OST is responsible for reconciling collection and distribution activity and reporting it to Treasury. When the ICP is executed within a DOI bureau/office and not for a TAS service, as is the practice within DOI, services are never comprehensively assessed from beginning to end. Instead the services are assessed through the ICP in a “silo” manner fostering an environment where DOI management does not have sufficient visibility of the efficiency or effectiveness of any given TAS service. In the example above, a control deficiency noted at OST around collection and distribution activity could possibly be mitigated by a control within ONRR. However, since these offices do not share information from their internal control reviews and the fact that this service is not reviewed from beginning to end, DOI management may not have complete visibility over the internal controls over the Minerals service. This lack of visibility can lead to duplicative reviews and the inefficient use of resources. According to a magazine article published by the Chartered Professional Accountants of Canada “The symptoms of the silo effect are easy to recognize: lack of cooperation, internal competition and breakdown in communication”¹².

➤ Lack of a Standardized Corrective Action Tracking Process

Section V of OMB Circular A-123 places the responsibility for the timely and effective correction of deficiencies found during an ICR with agency management. Section 1 of The Handbook implements the requirements set forth in A-123 by providing general guidance for this process during the ICR. However, DOI has not implemented a standardized corrective action tracking process for deficiencies noted during ICRs. During the review of ICR documentation and interviews with DOI personnel, we found that each bureau/ office has its own process for tracking the implementation of corrective actions. In addition, we found that some bureaus/ offices did not have a documented corrective action plan tracking process in place.

➤ Assessment of DOI ICP

The DOI ICP is designed in accordance with the goals, objectives and requirements of OMB Circular A-123. DOI provides guidance on planning and conducting internal control reviews. However, the ICP is designed to be executed at the Department level with some organizations within DOI not performing ICRs. The execution of the ICP for TAS by organization creates a “silo” effect that impacts the coordination among bureaus/ offices for the delivery of TAS services. Each bureau / office follows the DOI ICP to perform its internal control testing and those results are reported to DOI; however, no direct oversight for internal control reviews over TAS services. By executing the ICP at the Department level, DOI may not be able to comprehensively assess internal controls across all TAS services and ensure that the Secretary is maintaining internal controls in accordance with laws and regulations.

¹² Cote, Marcel (March 2002). A Matter of Trust and Respect. *CAMagazine*. Retrieved from <http://www.camagazine.com/archives/print-edition/2002/march/columns/camagazine23400.aspx>.

Status Review – Programmatic Reviews

Programmatic reviews are performed at agencies and/or offices within DOI engaged in the management of Indian trust assets. Reviews of trust programs are performed to ensure the effectiveness and efficiency of trust programs and operations to ensure those programs achieve their intended results and are in compliance with laws, regulations, policies and procedures.

Currently each bureau/office within DOI performs programmatic reviews of the TAS services they provide. The Office of Trust Review and Audit (OTRA) perform trust examinations (i.e. programmatic reviews) of compacted/contracted tribes as well as BIA Regional and Agency offices. These trust examinations evaluate organizational performance in meeting DOI's trust responsibility. For example, the OTRA trust examinations review and test the quality of operations, the capacity of management, and adherence to the Secretary's Fiduciary Trust Principles for Managing Indian Trust Assets¹³ associated with compacted/contracted tribes and BIA agency. Trust examinations are aimed at the early detection and prevention of potential liabilities that may arise from a breach of DOI's trust responsibilities. These reviews are performed to ensure trust programs are administered in accordance with applicable Federal law, the Secretary's principles for managing Indian trust assets, and sound fiduciary principles. In addition, ONRR and BLM also perform programmatic reviews over its trust responsibilities. Within BIA programmatic reviews are either performed at the Central Office within the Office of Trust Services or the responsibility of performing programmatic reviews are delegated to the BIA Regional office level. Similar to the trust examinations performed by OTRA, programmatic reviews performed by ONRR and BLM are conducted to assess the effectiveness and efficiency of trust programs and ensure the programs are properly carrying out the Secretary's responsibilities.

➤ Lack of a DOI Established Criteria and Processes

Through our review, we found no DOI established criteria for performing programmatic reviews. The Government Accountability Office (GAO) Generally Accepted Government Auditing Standards (GAGAS or the Yellow Book) provide such criteria. The Yellow Book is a professional standard that provides a framework for conducting high quality program audits with competence, integrity, objectivity, and independence. The standards provide specific guidance for the execution of performance audits which are defined as "audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with

¹³ The Secretary of the Interior's trust principles are located at http://www.doi.gov/ost/about_us/trust.cfm

responsibility to oversee or initiate corrective action, and contribute to public accountability. Given the objectives of the DOI programmatic reviews, the GAGAS criteria for program audits is appropriate.

The lack of DOI established criteria and procedures resulted in each bureau/office with trust responsibilities using standard operating procedures (SOPs) developed by the individual bureau/office to perform programmatic reviews. For example OST uses the Indian Trust Examination Guide to perform trust examinations of contracted/compact tribes and BIA Regional offices and Agencies; BLM uses the Evaluation Program Manual; ONRR uses the Natural Resources Revenue Audit and Oversight Program to perform their respective programmatic reviews; and some BIA Regional Offices do not have SOPs. While each SOP outlines the objectives, responsibilities, standards, reporting of review results, and tracking of corrective actions, the SOPs are not consistent across the organizations. For example the Indian Trust Examination Guide contains detailed steps along with checklist and templates that are required to be completed in performing trust examinations. The Evaluation Program Manual and the Audit and Oversight Program Manual contain the step by step process for completing reviews. Because of the lack of standardized SOPs, each bureau/office has its own corrective action plan tracking tool. Thus corrective actions may not be tracked and reported to the department in a manner that provides management with sufficient information to effectively evaluate the outcome of programmatic reviews. For example, the BIA Eastern Oklahoma region does not formally track corrective actions and only evaluates the implementation of the corrective action during the next review, while OTRA has documented requirements for documenting and tracking corrective actions resulting from the trust examinations, which is tailored to each organization reviewed by OTRA.

In addition, reviews are not routinely performed. During interviews with DOI personnel at each bureau/office, we found differences in the scheduling of programmatic reviews. ONRR scheduled the reviews when directed by management to do so and at the discretion of the Executive Committee and the Director. OST trust examinations at BIA Regional Offices and Agencies were performed on a 3-5 year cycle versus the required three year cycle. OST dropped to the 3-5 year cycle due to resource constraints. OST is not the only organization where limited resources have constrained the programmatic reviews. For example, the Office of Internal Evaluation and Assessment within BIA only performed one program review in FY2012. Another example of the non-routine nature of the programmatic reviews was found when we interviewed officials at the BIA Regional offices. Per those officials, programmatic reviews are performed on an ad hoc basis. For example, the Rocky Mountain Region the Forestry program is reviewed but not on a regular basis, while the Navajo Region reviews over the Forestry program are performed annually.

In contrast, some efforts are being duplicated at BIA Regional offices. OTRA currently performs trust examinations at BIA Regional Offices and Agencies over areas such as appraisals, probate, forestry, and records management. In addition to these trust examinations, some BIA Regional offices conduct programmatic reviews over their trust programs. For example, in interviews with the Eastern Oklahoma Region it was noted that the program reviews performed are duplicative of the trust examinations performed by OTRA. Eastern Oklahoma conducts program reviews at

their six Agencies for Real Estate, Probate, Forestry, and Environment TAS services and OTRA performs trust examinations over these same programs.

➤ Lack of a Central Point of Oversight for Programmatic Reviews

Programmatic reviews are executed at the Department level with some organizations within DOI not performing programmatic reviews. As noted in the lack of a DOI established criteria and processes observation above DOI management does not have complete visibility of programmatic reviews being performed. Therefore, there is no single point of accountability for the oversight of the execution of programmatic reviews for TAS services. For example, the program reviews for the Forestry program are performed by the BIA Regional offices and are not tracked at the Central Office. Because of the lack of a single point of accountability for the oversight of programmatic reviews for TAS services, DOI may not be properly assessing TAS services to ensure effectiveness, efficiency, and compliance with laws, regulations, policies, and procedures.

➤ Lack of Up-to-Date SOPs for Programmatic Reviews

Green Book requires as part of implementing internal controls that management is responsible of developing the detailed policies, procedures, and practices to fir their agency's operations¹⁴. Standard operating procedures used by some bureaus/ offices to perform programmatic reviews are outdated. In reviewing the programmatic review SOPs at various bureaus/ offices we noted the following concerns.

The Indian Trust Examiners Guide used by OTRA to perform trust examinations was last updated in 2007. The Evaluation Manual used by BLM to perform programmatic reviews was last updated in 2002. GAO's Yellow Book, which provides standards form conducting program/performance audits, was updated in December of 2011. Outdated SOPs may not be relevant and account for recent changes in GAGAS standards, laws, regulations, organizational structure, and DOI guidance.

➤ Duplication of Programmatic Reviews at BIA Regional Offices

OTRA currently performs trust examinations at BIA Regional Offices and Agencies over areas such as appraisals, probate, forestry, and records management. Furthermore, some Regions conduct their own programmatic reviews over their trust programs. For example, the Eastern Oklahoma Region noted that the program reviews they perform are duplicative of the trust examinations performed by OTRA. Eastern Oklahoma conducts program reviews at their six Agencies for Real Estate, Probate, Forestry, and Environment TAS services. However, OTRA performs trust examinations over these same programs at the Eastern Oklahoma region. These duplicative reviews can be an inefficient use of resources.

¹⁴ GAO Standards for Internal Control in the Federal Government, Green Book located at <http://www.gao.gov/products/AIMD-00-21.3.1>

➤ Lack of Full Execution of OTRA Trust Examinations at BLM and ONRR

The OTRA Indian Trust Examiners Guide states that “All DOI offices and agencies engaged in administering trust services on behalf of the Secretary are subject to OTRA trust examinations” Currently OTRA only performs trust examinations at BIA Regional Offices and Agencies and not at BLM and ONRR. It was noted during interviews, that OTRA has not been able to perform Indian trust examinations at ONRR and BLM due to a lack of financial resources. However, it should be noted that these offices do perform their own programmatic reviews over their trust responsibilities.

➤ Assessment of Programmatic Reviews

The execution of programmatic reviews is important for ensuring TAS services were performed effectively, efficiently and in accordance with applicable laws and regulations. Each bureau/office within DOI is responsible for performing programmatic reviews over its trust responsibilities. OST has a defined trust examination review process that is currently being executed at BIA Regional offices, BIA Agencies, and contracted/compact tribes. In addition, BLM and ONRR have a documented process for completing programmatic reviews over their TAS services. However, with a lack of a formally documented process and criteria for performing programmatic reviews for TAS, as a whole, programmatic reviews are not being performed consistently and thus bureaus/ offices may not reach the same conclusions about the effectiveness and efficiency of trust programs. In addition, DOI management may not have complete visibility into the effectiveness and efficiency of trust programs increases. Thus DOI may not be able to comprehensively assess trust programs and ensure that the Secretary's fiduciary responsibilities are being carried out.

Overall Assessment

The nature and complexity of TAS highlights the importance of ensuring accountability and oversight of TAS services. DOI's oversight of trust assets is hampered by the lack of a single point of accountability for the oversight of TAS since there is currently no bureau/ office with DOI that has direct oversight of the audit functions within TAS. There is a duplication of efforts in some areas, while other areas lack sufficient reviews.

The Reform Act requires an annual audit of all funds held in trust by the United States for the benefit of an Indian tribe or an individual Indian. The financial statement audit of the trust funds managed by OST is performed by an independent auditor with oversight provided by the OIG.

In reviewing the external auditor's audit opinion we noted that a qualified opinion was issued based on a scope limitation for fiscal year 2012. According to the audit report for the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances for both the Tribal and Other Trust Funds and Individual Indian Monies (IIM) auditor's opinion noted that "It was not practicable to extend our audit procedures sufficiently to satisfy ourselves as to the fairness of trust fund balances in the accompanying financial statements as of September 30, 2012 and 2011 due to the effects of certain parties for whom OST holds assets in trust disagreeing with balances recorded by OST and/or having requested an accounting of their trust funds, and of which certain of these parties have filed claims against the United States Government. Trust fund balances enter into the determination of financial position and changes in trust fund balances."

The current trust fund financial statement audit does not encompass all trust assets, but only trust funds managed by OST in its seven Treasury accounts. The trust audit does not include trust funds collected or other non-monetary Indian trust assets managed by various DOI bureaus/ offices. Lastly, SFFAS No. 31 requires accrual accounting for fiduciary activities, however, the trust fund financial statements are reported on a cash basis of accounting with certain modifications for the IIM funds.

FMFIA and OMB Circular A-123 establish the requirements that agencies establish and maintain agency internal controls. DOI has an established ICP is designed in accordance with the goals, objectives and requirements of OMB Circular A-123 that is used by DOI bureaus/ offices to perform ICRs. However, the execution of the ICP for TAS by organization creates a "silo" effect that impacts the coordination among bureaus/ offices for the delivery of TAS services. Each bureau / office follows the DOI ICP to perform its internal control testing and those results are reported to DOI; however, there exists no direct oversight for internal control reviews over TAS services, specifically. By executing the ICP at the Department level, DOI may not be able to comprehensively assess internal controls across all TAS services and ensure that the Secretary is maintaining internal controls in accordance with laws and regulations.

The execution of programmatic reviews is important for ensuring TAS services are performed effectively, efficiently, and in accordance with applicable laws, regulations, and policies. Each bureau/office within DOI is responsible for performing programmatic reviews over its trust

responsibilities. However, DOI lacks a formally documented process and criteria for performing programmatic reviews for TAS as a whole, and reviews are not being performed consistently, thus bureaus/offices may not reach the same conclusions about the effective and efficiency about the trust programs. This lack of comprehensive evaluation of the effectiveness and efficiency of trust programs by DOI management points to the lack a single point of oversight for the execution of programmatic reviews.

Establishing a single point of accountability for the oversight of TAS will provide beneficiaries the assurance that trust assets are properly managed and accounted for.

Recommendations

There are specific areas where DOI can further improve the management, oversight, and accountability of TAS services and trust assets. These are noted below.

➤ Recommendation 1: Establish an Office of Trust Internal Review

To be effective and efficient in a time of resource constraints and to provide the most confidence to the beneficiaries that the trust assets are properly managed and accounted for, a single point of accountability for the oversight function should be established. DOI should establish an Office of Trust Internal Review to promote greater accountability for trust program effectiveness, efficiency, and integrity. The mission of the Office of Trust Internal Review would be to protect the integrity of trust programs and operations for benefit of individual Indians and tribes by detecting and preventing fraud, waste, and abuse and identify opportunities to improve trust program economy, efficiency, and effectiveness. This office would report directly to the Trust Administration Commission¹⁵. The DOI OIG would still maintain oversight responsibility for the external audit but would coordinate with this newly established office to ensure the scope of the external audit meets the overall needs of the DOI management pertaining to trust fund management

The Office of Trust Internal Review would ensure that TAS has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB. To fulfill this objective this office would ensure that TAS has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB. To fulfill this objective this office would provide guidance and oversight to ensure that internal controls are established, maintained, and assessed for all Regions, bureaus and offices with trust responsibilities. These processes would help fulfill the requirements of preparing the Annual Assurance Statement required by FMFIA. This letter provides assurance to DOI that the internal controls—operations, policies, and procedures that managers use to achieve program goals and safeguard program integrity—are in place and sufficient. Lastly, the office would be responsible for the development, implementation, and execution of the Trust A-123 Internal Control program. Refer to Recommendation #2 relating to the development of a Trust A-123 Internal Control program.

In addition, the Office of Trust Internal Review would be responsible for developing and overseeing the effective implementation and execution of programmatic reviews. This office would be accountable for the effectiveness and efficiency of trust programs and operations by providing guidance and oversight to ensure programs achieve their intended results and are in compliance with laws, regulations, policies, and procedures. The reviews would offer practical recommendations to improve the efficiency and effectiveness of trust programs, with a focus on

¹⁵ As detailed in the Final Trust Recommendations Report (Phase 5) resulting from this assessment, the Trust Administration Commission would provide direct authority over the entire TAS function.

preventing fraud, waste, and abuse. Last, the office would be responsible for the development, implementation, and execution of the Trust Programmatic Review program. Refer to Recommendation #3 about the development of a Trust Programmatic Review program.

➤ Recommendation 2: Develop and Implement a Trust-Specific A-123 Program

Development of a trust A-123 program for TAS by the Office of Trust Internal Review would ensure that DOI is properly identifying and assessing internal controls within TAS services. The program would align with OMB Circular A-123, *Management's Responsibility for Internal Controls* and the DOI's Internal Control Program, and specifically focus on internal controls around trust assets. Similar to the DOI ICP, the Trust A-123 Program would provide guidance on how to verify internal control components, identify and verify risk, document key processes and controls, and assess internal controls. In addition, the program would contain a detailed corrective action tracking process with detailed guidance on how to document results of ICRs, create corrective action plans, and how to obtain buy-in of process owners for those corrective actions. In addition, with a single office responsible for the execution of the trust A-123 program, DOI would be able to comprehensively assess internal controls across all TAS services and ensure that the Secretary is maintaining internal controls in accordance with laws and regulations

➤ Recommendation 3: Develop and Implement Trust Programmatic Review Program

Development of a trust programmatic review program by the Office of Trust Internal Review would assure DOI management, trust beneficiaries and other interested parties that the Secretary's trust responsibilities are being met successfully. The program should provide review schedules, SOPs, workpaper templates (checklists, test plans, document deficiencies, and final reports) and a detailed corrective action tracking process. The programmatic reviews should be performed in accordance with GAO Yellow Book standards. The current OTRA Trust Examination Guide could be expanded to create this program. In addition, with a single office responsible for the execution of the trust programmatic review program, DOI would be able to comprehensively assess TAS services and ensure the Secretary's responsibilities are properly being discharged in accordance with laws and regulations.

➤ Recommendation 4: Review Presentation of Trust Fund Financial Statements

Statement of Federal Financial Accounting Standard (SFFAS) No. 31 requires accrual accounting for fiduciary activities. The trust fund statements are currently prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. DOI should consider changing the presentation of the financial statements to comply with SFFAS No. 31.